From: Sammy Levis
Sent: Monday, January 31, 2005 6:51 PM
To: Lorna Soto
Subject: Fw: IO questions

Give to DL

-----Original Message-----
From: Shanahan, Jim <jim.shanahan@wachovia.com>
To: Sammy Levis <Sammy.Levis@doralfinancial.com>
Sent: Mon Jan 31 14:36:45 2005
Subject: IO questions

Hi Sammy,
I know that you are on the road, but I would like to ask you a couple of questions about the IOs.
When creating new IOs, does DRL use the spot LIBOR rate or the forward LIBOR rate? Is the period-end spot LIBOR rate used for the quarterly valuations, as well?
Mgmt has made some comments about expectations for higher interest rates going forward.
Is DRL now using a model which incorporates interest rate expectations, adjusted for caps, to generate the value (an OAS model, for example)?

The actual IO amortization for Q2 and Q3 was the same for each period, while the beginning IO balance had grown. The amortization suggests that the expected average life of the IOs increased from 6.7 years in Q2 to 7.6 years in Q3. The amortization schedules for 2001-2003 suggest an expected weighted average life of 4.3-5.4 years. Is that correct? (Amortization expense / Beginning IO Balance)

IO amortization expense flows through the trading account, correct?

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